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THE CHANGING JAPANESE CONSUMER

Summary

With private consumer spending accounting for more than half of Japan's gross national product, it is hard to overemphasize its importance to the country's economic performance. Yet, it often gets scant attention compared to trade or investment, for example. Recently, interest has risen as some analysts have argued that Japanese consumer behavior is changing, with one consequence being that consumer spending is having even more of an impact on economic growth. One key is the extent to which the Japanese consumer spends rather than saves. Either way, Americans may be affected. Japanese savings get funneled indirectly through international capital markets to help fill the shortfall in American savings. Obversely, American firms are hopeful that some portion of the increased spending will go for products made in the United States. Whether rising spending translates directly into higher standards of living in Japan is more problematic. Leisure may end up getting sacrificed. And the consumer spending figures do not include housing, which is important enough to be treated separately for statistical purposes.

Saving versus Spending

Economists attempting to divine the secrets of Japan's exceptional postwar economic performance frequently focus on the country's extraordinary high rate of savings, especially by households. The abundant savings are credited with a variety of virtuous outcomes, including high levels of investment, a superior export performance and even low inflation rates. Yet, in the recommendations for economic restructuring outlined in the two government-commissioned Maekawa Reports and elsewhere, Japanese opinion leaders have called for

an increase in private consumer spending (see JEI Report No. 39A, October 14, 1988). Whether this means higher spending out of existing disposable income or higher incomes is not always spelled out, but lower savings rates are strongly implied.

Consumer spending and savings represent opposite choices; to the extent that a consumer chooses to spend money he or she chooses not to save. The shifting emphasis from saving to consumption suggests some confusion as to what policymakers want the consumer to do. In fact, varying circumstances make a push for one or the other correspondingly appropriate.

High savings rates are helpful, for example, if the country has a buoyant climate for plant and equipment investment. Savings are, in effect, current production that workers in their role as consumers do not turn around and purchase back. The extra aggregate production may pile up as unwanted inventory accumulation, an obvious bad result that leads to production declines and reductions in employment. However, if the excess of workers' production over their consumption ends up as additions to plant and equipment, future productive capacity is enhanced, an obvious gain. Finally, the excess of domestic production over domestic consumer demand may end up partly as a surplus of exports over imports. This brings us to the current situation.

If Japanese consumers can be induced to spend more, the reasoning goes, less extra production will end up reflected in a large current account surplus. Domestic demand could replace export demand. Or import demand could increase so that Japanese consumers, while not collectively consuming what they produce and still offering the world the surplus of their domestic production, would offset part of that imbalance by buying more from abroad. Either way, reduced saving would help shrink the current account surplus. In short, opinion leaders argue, the time has come to emphasize the positive role of consumer spending.

The Role of Consumer Spending in the Economy

For years exports were seen, rightly or wrongly, as the engine of Japanese economic growth. While it has been years, if not decades, since this was official policy, foreign experts in particular made a connection between Japan's rapid rate of growth and its mounting trade surpluses in the early 1980s. And they cite this as evidence of the continued importance to Japan of exports.

By 1987, however, exports clearly had been pushed to the sidelines. In the 1987 fiscal stimulus package, for example, government spending shared top billing with other components of domestic demand -- housing, private investment and private consumer spending. Surging housing demand, government spending, and plant and equipment investment can create strong domestically led growth even in the face of sluggish consumer spending. However, the latter, if it behaves perversely, can easily overwhelm all the other factors, even taken together. Most of the time consumer spending has been like a well-behaved elephant -- powerful, hard to ignore, but given little individual attention as long as it stays out of trouble. With tax cuts, the pending indirect consumption tax, and

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changes in the way savings are taxed, the government has moved the beast into the limelight.

Table 1 shows the role of price-adjusted consumer spending in recent years and the contribution that it has made to real Japanese economic growth. While private consumption looms large in the Japanese economy year in and year out, it also varies as a percentage of gross national product over the business cycle, mostly because other components of GNP are more volatile. During periods of accelerating economic growth, as in 1976 and 1987, consumer spending has grown more slowly than the overall economy, thereby becoming a smaller percentage of GNP. Conversely, during periods of slow or negative growth, it props up total demand and its importance to the economy rises, as shown in 1974 and 1986.

Table 1: Private Real Consumer Spending and Economic Growth in Japan, 1970-87

	Consumer Spending as Percent of GNP	Contribution of Consumer Spending to GNP Growth	GNP Growth Rate	Consumer Spending Growth Rate	Saving Rate*
1970	57.6%	4.1%	9.5%	6.9%	17.9%
1971	58.3	3.2	4.3	5.6	17.8
1972	58.7	5.4	8.5	9.3	18.2
1973	59.4	5.4	7.9	9.2	20.4
1974	60.1	-0.2	-1.4	-0.3	23.2
1975	61.1	2.6	2.7	4.4	22.8
1976	60.4	2.1	4.8	3.5	23.2
1977	59.7	2.6	5.3	4.2	21.8
1978	59.9	3.2	5.2	5.4	20.8
1979	60.5	3.9	5.3	6.5	18.2
1980	58.9	0.9	4.3	1.4	17.9
1981	57.5	0.8	3.7	1.3	18.3
1982	58.1	2.4	3.7	4.1	16.5
1983	58.1	1.9	3.2	3.2	16.3
1984	56.8	1.6	5.1	2.7	16.0
1985	55.6	1.6	4.9	2.7	16.0
1986	56.1	1.8	2.4	3.2	16.6
1987	55.8	2.2	4.3	3.9	16.6

*Household savings as a percent of current household disposable income. In contrast, consumer spending represents the real expenditures of households and nonprofit organizations.

Source: Economic Planning Agency

The table also shows Japan's high rate of household savings. Japanese savings by this measure are between two and four times the U.S. level as a percentage of income. (More comprehensive measures that include business and government savings show a smaller discrepancy.) But the country's high savings rate has not prevented the Japanese from also boosting consumer spending significantly over the years. Between 1969 and 1987 total real private consumption

more than doubled. Since the population grew 19.2 percent during this period, per capita spending growth came to a whopping 77.6 percent.

Consumer spending and GNP growth are not independent factors. Each influences the other. For example, if government spending spurs the expansion of the economy, private consumption is likely to rise at least a little as the effect of the stimulus spreads throughout the economy. Similarly, higher consumer spending will induce expansion elsewhere in the economy in addition to its role as the largest single component of GNP. This interdependence reduces the extent to which consumer spending and GNP are likely to follow separate paths over the business cycle. It also means that higher consumer spending may reflect growth elsewhere in the economy rather than being a cause of that growth.

The new emphasis on consumer spending implies that policymakers would like it to be more of a cause than an effect of economic growth. Two trends in the data, however, offer mixed evidence as to whether this is likely.

- Recent data show no clear tendency for consumer spending to rise at the expense of saving. This implies that consumption has risen passively as GNP has grown, rather than being a cause of the growth. Household saving, which is measured somewhat differently than consumption or GNP, remains at a high level. While arguably low relative to the early stages of previous economic recoveries, the 1987 figure clearly suggests that Japanese consumers have not yet completely abandoned the savings ethic.

- The GNP data on consumer spending also reveal a very clear trend in the composition of spending (see Table 2). Without exception during the 1980-86 period, real purchases of services and durable goods, such as home appliances, expanded at the expense of nondurables and semidurables. The changes clearly reflected income effects. Japanese real GNP and household disposable income grew rapidly during this period, pulling up expenditures on income-sensitive services, such as recreation, and expensive durable goods, such as furniture. The rapid increase in expenditures on services, especially, is a common one among growing industrial countries. In the United States, for example, it has a 50-year history.

Table 2: Composition of Real Consumption Expenditures of Households in the Domestic Market by Type, 1980-86

	Durables	Semidurables	Nondurables	Services
1980	5.9%	13.1%	33.3%	47.6%
1981	6.0	12.5	33.0	48.5
1982	6.3	12.5	32.4	48.8
1983	6.6	12.3	32.0	49.2
1984	6.9	12.4	31.3	49.7
1985	7.1	12.0	30.9	49.9
1986	7.5	11.8	30.0	50.6

Source: Economic Planning Agency

Durable goods purchases generally vary over the business cycle, both because they are easily postponed and because they are sensitive to interest rates. Low rates appeal to Japan's increasing ranks of borrowers because borrowing costs decline and to savers because continued savings -- an alternative to durable goods purchases -- are less attractive. To the extent durable goods are becoming a more important part of how households spend their money, consumer spending in general plays a more active role in influencing the overall rate of economic activity, rather than merely reflecting developments elsewhere.

But the increased importance of services has the opposite effect. Demand for services is particularly stable since they cannot be stored for future use. Since both durable goods and services are becoming more important, the data offer no clear-cut clues as to whether consumer spending will be more of an independent factor in the future.

The increase in purchases of durable goods also should be compared to the reduction in the household savings rate shown in Table 1. To the extent that buying a long-lived asset really amounts to a savings decision in the sense of deferring complete consumption to a later year, the decline in the household savings rate is less than it appears.

The Current Economic Expansion

Rashomon is a famous Japanese film where several different observers of an episode later describe it completely differently. Today Japanese filmmakers could update the film using contemporary economic data on Japanese consumer spending.

• The broadest, and in many ways the most accurate, picture of what has happened in 1987 and 1988 is provided by the Economic Planning Agency's national income statistics. (Tables 1 and 2 use the annual versions.) The recent quarterly GNP data presented in Table 3 show a continuation of the long

Table 3: Quarterly Growth of Real GNP and Consumer Spending, 1987-88

(seasonally adjusted, quarter-to-quarter change)

		Real Consumer Spending	Real GNP
1987:	I	2.0%	1.5%
	II	0.7	0.0
	III	1.0	2.0
	IV	0.4	1.8
1988:	I	2.5	2.7
	II	0.6	-1.0
	III*	1.3	1.9
	IV*	1.2	1.1

*NRI & NCC Co, Ltd. November 1987 forecast.

Sources: Economic Planning Agency and NRI & NCC Co., Ltd.

patterns evident in Table 1. Consumer spending has shown less quarter-to-quarter, seasonally-adjusted variation than other components of GNP. Table 3 figures incorporate the period just after the economy hit bottom in late 1986, as measured by the coincident series accumulated diffusion index, a broad measure of economic activity developed by the Economic Planning Agency. The figures do not demonstrate conclusively what is often argued -- that in 1988 consumer spending is picking up relative to other sectors of the economy. Whether this pattern will emerge more clearly later in 1988 and in 1989 is still to be seen, of course, but the projected growth rates for the second half of this year from NRI & NCC Co., Ltd., the successor to the Nomura Research Institute, offer little encouragement.

• Retail sales data, which are available far more quickly than EPA figures, show a dramatically different picture. Department store sales numbers suggest that sales are booming (see Table 4). For example, September 1988 department store sales nationwide were 6.8 percent ahead of a year earlier. Since a 2.8 percent gain in February 1987, monthly year-to-year advances have never dropped below 4.9 percent. With consumer price increases well under 1 percent annually, these figures translate into very healthy real gains. As shown in the comparison with nominal private consumer spending included for reference purposes in Table 4, in the early 1980s the retail sales figures suggested a lower rate of increase in consumer spending than the national income statistics on consumer spending; since 1986 they have been more optimistic. New car sales, as measured by vehicle registrations and thereby largely free of measurement-distorting price components, also have soared in 1988.

Table 4: Indicators of Consumer Spending, 1981-88

	Sales of Large Retail Stores		Car	Nominal Private
	Total	Department Stores	Registrations	Consumer Spending
1981	8.0%	6.6%	0.5	5.7%
1982	4.3	3.2	6.0	6.8
1983	3.0	2.2	3.2	5.1
1984	4.2	4.6	-1.3	4.9
1985	3.6	4.4	0.3	5.0
1986	4.6	5.4	1.4	3.7
1987	4.9	5.5	4.1	3.7
1988: I	6.6	7.5	14.7	5.2
II	7.2	7.8	17.4	4.6
III	n.a.	n.a.	11.2	n.a.

Sources: Ministry of International Trade and Industry, Japan Automobile Dealers Association, Japan Mini-Vehicles Association, Economic Planning Agency

• Yet another perspective is provided by the family income and expenditure survey, conducted monthly by the Management and Coordination Agency. It surveys household spending and income patterns, leaving out agricultural, forestry and fishing households and all single-member households. In 1985 the omitted groups came to about a quarter of the total. Leaving out single-member

households creates a problem whether comparisons are made across households or over time because such groups, whose spending behavior is very different from other households, are becoming more important in Japan. In addition, the reported figures are on an individual household basis and are therefore neither an aggregate nor a per capita figure, rendering comparisons with other data difficult.

For these reasons, the results of the survey should be interpreted as representing important economic segments of the population, not the economy as a whole. But as such, they are invaluable. The evidence shows that different groups of the Japanese population are changing their consumption in quite different ways. Table 5 provides details. Wage-earning households, easily the most important single household type and about 80 percent of the sample population, have increased their consumer spending very cautiously in recent years, even before the rapid appreciation of the yen and the economic slowdown in late 1985 and throughout 1986.

Table 5: Household Expenditures, 1985-87

(year-to-year percent change)

	Wage-Earning Households (disposable income)	Wage-Earning Households (consumer spending)	"General" Households (consumer spending)	Weighted Average Consumer Spending
1985	4.0%	2.4%	3.4%	2.6%
1986	1.6	1.4	0.6	1.2
1987	2.1	0.8	4.1	1.7

Source: Management and Coordination Agency

In contrast, "general" households, which make up about 20 percent of the sample population and are defined as those households headed by owners of businesses or professionals such as lawyers and doctors, increased their spending far more rapidly than wage earners in 1987. Some analysts attribute this difference to a wealth effect: spiraling land and stock prices have enriched "general" households to the point where they feel more comfortable spending a high percentage of their income. Wage-earning households with fewer such assets have on balance moved in the other direction, increasing their savings by spending a smaller proportion of their disposable income. If "general" households and wage-earning households make consumer purchases in different outlets, buy cars at different rates and so forth, then measures such as department store sales serve as inadequate proxies for trends in overall consumer demand. In the current economic environment, this suggests that the boom inferred from retail sales may be exaggerated.

While presumably not as important as for the wealthier "general" households, the Economic Planning Agency has found a significant wealth effect even for wage-earning households. EPA estimates such households' consumer spending rises 15 percent for every percentage increase in their real financial assets. With the financial assets of workers' households rising 12 percent in 1987, EPA

figures that the wealth effect had a major impact on their consumer spending, which rose a real 1 percent.[1]

The survey of wage-earning households also provides a look at consumption patterns by income level. Some of the extremes of the income distribution -- young, low-income, single women living alone, and the wealthy self-employed, for example -- are not included. Still, the results are revealing. Table 6 groups Japanese workers into five income groups. Group V has the highest disposable income, about Y560,000 per month or $54,000 per year at Y125=$1.00. Its disposable income is about 2.5 times that of Group I, the lowest.

Table 6: Consumer Spending by Income Group for Workers' Households, 1984-87*

(consumer spending as percent of disposable income)

	Income Quintile				
	I	II	III	IV	V
1984	88.5%	82.0%	78.5%	76.4%	74.8%
1985	87.2	81.5	76.4	76.3	73.1
1986	85.5	81.6	77.8	75.2	73.3
1987	85.3	79.8	76.1	73.9	73.2
Change in disposable income:					
1984-87	5.8	5.6	6.4	7.7	11.0
1986-87	1.6	1.0	1.4	2.2	3.3

*Consumer prices, excluding imputed rents, rose 4.1 percent between 1984 and 1987 and dropped 0.2 percent in the 1986-87 period.

Source: Management and Coordination Agency

Higher income groups consistently consume a lower fraction -- and thus save a higher fraction -- of their disposable income than lower income groups, a conclusion with abundant empirical support across many countries and over several decades. More interestingly, all five groups increased their rates of savings between 1984 and 1987.

The wealthiest group, Group V, had the largest increase in disposable income both in 1987 alone and for the 1984-87 period. Furthermore, its spending showed greater increases and was comparable to the gains indicated for "general" households. Spending by Group V increased 3.2 percent in 1987 and 8.7 percent between 1984 and 1987. Both figures are close to the increase for "general" households of 4.1 percent in 1987 and 8.3 percent over the period, and they are higher than for workers' households, whose spending increased 4.7 percent between 1984 and 1987 and a mere 0.8 percent in 1987.

[1]Japan, Economic Planning Agency, Keizai Hakusho (1987 Economic White Paper) (Tokyo: Okura-sho Insatsu-kyoku, 1988), pp. 256-257 (in Japanese).

In addition, data through 1986 suggest that the higher income groups had larger income and spending gains primarily because their wages and salaries, rather than other earnings, went up faster than for lower income groups. For example, the disposable income of the lowest quintile climbed 4.1 percent overall between 1984 and 1986, while that of the highest group jumped 7.4 percent. Considering only wage and salary income, however, the increase for the lowest group was only 3.3 percent while the highest income group had an 8.7 percent boost.

Put differently, the Japanese consumer has not really changed. If wages and salaries go up, so does spending. Absent an increase in income or a strong wealth effect, consumer spending stagnates, all the hoopla about the new Japanese consumer notwithstanding. This suggests that the growth in consumption, so vital to the economy, will depend on the continued growth of disposable income. Consumer spending, if it is to pick up, is likely to do so as lower income workers receive larger wage increases.

Recent data suggest that this may be happening. Table 7 shows that, as income gains for workers this year have accelerated, consumer spending has grown more rapidly. With inflation still running at less than 1 percent, workers have higher real disposable incomes and the wherewithal to spend more in price-adjusted terms. By contrast, 1987 disposable income was up only a nominal 2.1 percent and spending rose only 0.8 percent over 1986. While earlier this year consumer spending gains outpaced the growth in disposable income, the figures for June, July and August show consumer spending again lagging earnings growth, adding fresh evidence about the dependence of consumer spending expansion on higher incomes.

Table 7: Disposable Income and Consumer Spending by Workers' Households, 1982-88

(year-to-year percent change)

	Nominal Disposable Income	Consumer Spending Nominal	Consumer Spending Real
1982	5.8%	5.9%	3.1%
1983	2.6	2.3	0.4
1984	4.4	3.9	1.7
1985	4.0	2.4	0.3
1986	1.6	1.4	1.0
1987	2.1	0.8	1.0
1988 January	5.3	2.6	1.9
February	2.0	5.0	4.4
March	1.1	3.0	2.5
April	3.7	3.0	3.0
May	0.2	1.7	1.8
June	7.4	2.4	2.4
July	4.9	4.6	4.1
August	4.3	3.3	2.7

Source: Management and Coordination Agency

The family income and expenditure survey also provides information about the composition of expenditures by item. Table 8 combines data for workers' and "general" households. While there is considerable year-to-year stability in the patterns, expenditures on food have declined marginally even while there has been a shift toward more expensive alternatives such as eating out. As a picture of consumer expenditures, Table 8 of course does not reflect government outlays for education, transportation or medical care, among other items.

Table 8: Distribution of Expenditures Per Household, 1980-88

(percent of total consumer spending by "general" and wage-earning households)

	1980	1984	1985	1986	1987	Growth Rate 1987-88*
Food	29.0%	27.3%	27.0%	26.8%	26.1%	1.5%
Take home	(1.7)	(1.8)	(1.8)	(1.8)	(1.8)	(8.3)
Eaten out	(3.7)	(3.8)	(3.8)	(4.0)	(4.0)	(6.1)
Housing	4.6	4.7	4.7	4.7	5.0	5.9
Utilities	5.7	6.5	6.5	6.3	5.8	0.7
Furniture and Housewares	4.3	4.2	4.3	4.1	4.2	-0.1
Clothes and Footwear	7.9	6.9	7.2	7.1	7.1	4.2
Medical Care	2.5	2.5	2.5	2.5	2.6	6.4
Transportation and Communications	8.0	9.0	9.1	9.1	9.4	3.3
Education	3.6	4.0	4.0	4.1	4.3	5.5
Reading and Recreation	8.5	8.8	8.9	9.0	9.0	10.7
Other	25.8	25.8	26.0	26.3	26.5	3.8
Total	100.0	100.0	100.0	100.0	100.0	3.7

*January-August 1987 compared to January-August 1988.

Source: Management and Coordination Agency

Recall that the national income data show that durables as a percentage of all consumer spending increased consistently between 1980 and 1986. The family income and expenditure survey provides evidence that this trend has continued, at least until recently. In fiscal year 1987 ending March 31, 1988, spending on durables increased 7.7 percent, while purchases of nondurables were flat. In addition, Sumitomo Bank, Ltd. reckons that imports are becoming a particularly important source of consumer durables. In every year between 1979

and 1985 real imports accounted for between 6 and 7 percent of price-corrected spending on durables. As a result of the rapid appreciation of the yen that began in 1985, they averaged slightly more than 7 percent in 1986, shooting up to 9 percent in 1987 and about 12 percent in the first six months of 1988.

Whether this development bodes well for the future trade balance is not clear. On the one hand, it is encouraging that foreign suppliers are becoming more important to Japanese households and are supplying products whose demand is likely to continue to rise as Japanese household incomes go up. On the other hand, analysts at the Industrial Bank of Japan, Ltd. point out that part of the current strength of consumer durables reflects the cyclical peaking of demand. According to the bank, the previous cycle peaked in 1975. Since many durable goods, such as major appliances, last an average of about 10 years, this could suggest that, while in the long run demand may rise, over the next few years this source of demand may be relatively weak.

Recent monthly data hint this may be already happening: as measured by the family income and expenditure survey of workers' and "general" households, nominal demand for domestically produced and imported consumer durables was 20.6 percent lower in June 1988 than in June 1987. July showed a 13.3 percent drop. August, the most recent month for which information is available, had a 17.4 percent drop compared to the same month a year earlier. Since prices changed little, these numbers translate into significant declines.

Looking forward a few months, a less than completely optimistic picture of overall consumer spending emerges. It will gain strength from higher disposable incomes and continued low interest rates, but two other anchors of demand in the past year, durable goods and the wealth effect, may diminish in importance. Demand for durable goods may have reached a cyclical peak, and the wealth effect, a consequence of skyrocketing land and stock prices, may lessen as those prices level off. The result: healthy, if moderate, growth in consumer spending.

The recent figures imply that Japanese consumers are not likely to be the source of a significant cut in the current account imbalance. Continued high household savings will remain a part of Japan's capital outflow and a prop under the current account surplus. One area of recent strength for exporters to Japan, durable goods, may be weakening, but improved distribution channels and the continued effects of the strong yen will boost demand for imported consumer goods.

On one critical question, the various sets of data point to an unambiguous conclusion. Whether the focus is the annual or quarterly national income data (Tables 1 and 3) or the family income and expenditure figures (Tables 6 and 7), savings rates so far have changed little. They may yet fall, but during 1986 and 1987 they remained high in the face of a surge in demand for durables, a consumption-inducing wealth effect and a soaring yen. Part of the exchange rate effect gets reflected in higher real disposable incomes, but other benefits, such as increased competition to introduce new and better products, should be apparent in an upward shift in consumer spending as a percentage of disposable income. So far such effects have been overwhelmed by the traditional slow response of consumer spending as incomes rise coming out of a recession. This suggests a certain stability in consumer spending patterns and implies that consumption has not yet become an independent factor driving economic growth. Consumer spending, the well-behaved elephant, has been brought to center stage, but he is still a little listless.

Implications for the Japanese Standard of Living

For whatever reason, many analysts still argue that since 1985 consumer spending has been greater than anticipated. Whether expected or not, consumer spending unquestionably has risen in recent years and months, but this does not necessarily imply a proportional gain in the well-being of ordinary Japanese. For one thing, the spending figures leave out purchases of housing. The flip side of rising real estate values that create a positive wealth effect on consumer spending by some is that they make housing less affordable for others. While Japanese housing starts -- and the average size of the new units constructed -- have increased in recent years, affordable quality housing is an elusive goal for many Japanese of modest means.

In addition, leisure is an important aspect of the standard of living. In fact, except for those rare individuals who enjoy every minute of work, leisure can be thought of as one more item of consumer expenditure, purchased at the cost of foregone income. This has gained official Japanese recognition in economic plans and other documents that call for shorter working hours. However, Japanese employees seem to be on the job about as long as they have in the recent past, especially if both hours per worker and workers per population are considered.

- The average hours of work per month vary according to business conditions in Japan, as Edward J. Lincoln has pointed out.[2] During recessionary periods companies cut back on overtime and even on regularly scheduled work, perhaps because they believe they have few options to vary the number of people on the payroll. During a recovery the hours worked go back up. This implies that economic growth in the short run comes at a cost in leisure. Even in the long run, though, it is not evident from the data that Japanese employees are working shorter hours (see Table 9).

Table 9: Working Hours and Labor Force Participation, 1970-87

	Hours Worked Per Worker Per Month*	Female Labor Force Participation Rates		
		25-34	35-44	45-54
1970	186.6	46.8%	60.1%	61.1%
1975	172.0	43.2	56.9	59.8
1980	175.7	48.7	60.9	62.0
1984	176.3	52.1	63.7	64.1
1985	175.8	52.2	63.7	64.6
1986	175.2	52.1	64.4	64.9
1987	175.9	53.6	64.5	65.2

*Total for all industries and for firms having 30 or more regular workers.

Sources: Ministry of Labor and Management and Coordination Agency

[2]Edward J. Lincoln, Japan: Facing Economic Maturity (Washington, D.C.: Brookings Institution, 1988), pp 58-59.

• In addition, young married women are more likely to bring home a paycheck than previously. While not without many benefits, this phenomenon further reduces household leisure and leaves less time available to do housework, as two-income families anywhere can testify. The male labor force participation rate (those working or seeking work divided by the population in that age group) for ages 25-55 has changed little since 1970, while the rate for females in this age group has risen, as Table 9 shows. But labor force participation generally has fallen for those younger than 25 or older than 55 for both men and women, and this has been enough to pull down the overall average labor force participation rate from 65.4 percent in 1970 to 62.6 percent in 1987. This suggests a redistribution of leisure time away from those in the peak working years.

The facts that those who are employed are working at least as many hours as before and that in numerous households both husband and wife are employed suggest that leisure time has declined for many. To the extent that reduced leisure and less time keeping house accompany higher household income, purchases of goods and services have substituted for leisure and unpaid housework. The success of new products this year, such as expensive high-power vacuum cleaners designed to save time, and new services, including the spread of convenience stores, provide anecdotal evidence of these trade-offs.

The Future

Older Japanese and Americans share at least two laments: the young do not work hard enough and they save too little. Senior citizens in both countries fear for their nation's future. The lack of a work ethic is open to question, as noted earlier. With two-income young households on the rise in Japan, at least the young are putting in more hours on the job, although whether they are working as hard as their parents is more problematic.

Young Japanese, especially, are often viewed as particularly profligate, indulging in gold-flaked sushi, expensive foreign travel, personal electrical appliances of all kinds and putting away next to nothing for a rainy day. Juppies (Japanese urban professionals) and DINKs (double income, no kids) have entered the Japanese lexicon. What is the reality?

The national survey of family income and expenditure, last taken in 1984, looked at DINK behavior, although it did not use the word. It showed that couples without children where the wife worked outside the home and the husband was under age 34 saved 22.2 percent of their disposable income, above the national average. Of course, the situation could have changed since then; the survey is next scheduled for 1989.

More generally, however, the family income and expenditure survey indicates that savings may be dropping slightly among the young. The years 1976, 1985 and 1986 had almost identical rates of savings among workers' households in general at 22.6 percent, 22.5 percent and 22.6 percent of total disposable income. Among those aged 25-29, however, the savings rate dropped from 20.2 percent in 1976 to 19.8 percent in 1985 and 18.1 percent in 1986.

If, as they get older, these young consumers continue to save less than their elders did at the same age and if their younger brothers and sisters copy their behavior, Japan's savings rate will drop eventually. This pattern, however, will take years to show up as a macroeconomic phenomenon.

Conclusion

As the Japanese economy has grown, consumer spending, always a critical component of the economy, has grown along with it. Japanese consumers have enjoyed the benefits of being able not only to buy more goods and services but a widening variety of both. Whether, as is sometimes argued, they are starting to spend a higher percentage of what they earn is not at all clear; increases in consumer spending are mostly a result of higher incomes, not a different psychology. In any case, reduced leisure time is cutting the gain in the standard of living. Furthermore, housing remains the Achilles' heel of Japanese living standards.

Americans, of course, have a stake in what the Japanese consumer does. Japan's households have, in effect, been asked to lend a hand in resolving the frictions stemming from stubborn trade imbalances that, in turn, reflect consumer behavior in both countries. Whether Japanese consumers decide to go on a spending spree or cling tightly to their hard-earned yen, their decisions will be felt across the Pacific.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.